

**BOARD OF OPERATIONS
AKRON FAIRGROVE
WASTEWATER SYSTEM
AKRON, MICHIGAN
TUSCOLA COUNTY**

**FINANCIAL REPORT
MARCH 31, 2008**

BOARD OF OPERATIONS - AKRON FAIRGROVE WASTEWATER SYSTEM

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REPORT OF INDEPENDENT AUDITORS

To The Honorable Board of Operations
Akron Fairgrove Wastewater System
Akron, Michigan

We have audited the accompanying financial statements of the business-type activities of the Board of Operations-Akron Fairgrove Wastewater System, Akron, Michigan as of and for the year ended March 31, 2008, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Board of Operations-Akron Fairgrove Wastewater System, Akron, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Board of Operations - Akron Fairgrove Wastewater System, Akron, Michigan, as of March 31, 2008 and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages ii through iii are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Nietzke & Faupel P.C.
NIETZKE & FAUPEL, P.C.
Sebewaing, Michigan

June 24, 2008

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BOARD OF OPERATIONS - AKRON FAIRGROVE WASTEWATER SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED MARCH 31, 2008

Introduction

The discussion and analysis of Akron Fairgrove Wastewater System's financial performance provides an overview of the Board of Operations financial activities for the year ended March 31, 2008. This report is a part of the Board of Operations Annual Report.

The purpose of the Board of Operations is to supervise the operation of the wastewater system jointly owned by the Village of Akron and the Village of Fairgrove. The Board of Operations is composed of two members from the Village of Akron and two members from the Village of Fairgrove.

Using the Annual Report

This annual report consists of a series of financial statements as follows:

- ▶ **The Statement of Net Assets** presents information on all of the Board of Operation's assets and liabilities, with the difference between the two reported as net assets.
- ▶ **The Statement of Revenues, Expenses and Change in Net Assets** presents information showing how the Board of Operations net assets changed during the most recent year. All change in net assets are reported on an accrual basis, that is, the event is recorded in the accounting records when the underlying event takes place regardless of the timing of the related cash flows.
- ▶ **The Statement of Cash Flows** presents the financial activities of the Board of Operations on a cash received and cash paid basis. This statement also reconciles the change in cash accounts for the Board of Operations from the prior year to the current year.
- ▶ **The Notes to the Financial Statements** provide additional details underlying the data provided in the financial statements.

Financial Highlights

The Statement of Net Assets outlines the assets, liabilities and net assets of the Board of Operations. The net assets increased from \$88,043 in the prior year to \$90,500 in the current year, an increase of \$2,457.

	<u>March 31, 2008</u>		<u>March 31, 2007</u>	
Unrestricted current assets	\$26,134	28.88%	\$46,504	52.82%
Capital Assets	<u>64,366</u>	<u>71.12%</u>	<u>41,539</u>	<u>47.18%</u>
Net Assets	<u>\$90,500</u>	<u>100.00%</u>	<u>\$88,043</u>	<u>100.00%</u>

BOARD OF OPERATIONS - AKRON FAIRGROVE WASTEWATER SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED MARCH 31, 2008

The change in assets:

	March 31,	
	<u>2008</u>	<u>2007</u>
Unrestricted current assets (cash and receivable)	(\$20,361)	\$4,258
Capital Assets	<u>22,827</u>	<u>(2,029)</u>
Total Increase in Assets	\$ <u>2,466</u>	\$ <u>2,229</u>

The total liabilities increased from \$368 to \$377.

The change in net assets of \$2,458 and \$2,229 as shown on the Statement of Revenue, Expenses, and Change in Net Assets includes:

	March 31,	
	<u>2008</u>	<u>2007</u>
Operating Income (operating revenues less operating expenses)	\$1,809	\$5,969
Non-Operating Revenues/Expenses	649	1,074
Prior Period Adjustment		<u>(4,814)</u>
Change in Net Assets	\$ <u>2,458</u>	\$ <u>2,229</u>

The Board of Operations realizes nearly all of its operating revenue from two sources: charges for services to the two Villages. Charges for services in the amount of \$23,400 comprise 97% of the revenue. The relative percentages for sources of revenue did not change significantly from one year to the next.

During the fiscal year 2008 there were no significant variations between the actual revenues and expenses and anticipated revenues and expenses as approved by the Board of Operations. The overall financial position of the Board of Operations has not significantly changed from the prior year as the agreement for services and funding between the Board of Operations and Villages has remained fundamentally the same.

The Board of Operations future plans are still to do repairs to the inlet structure. At this point the board is still working with the DEQ and engineers to determine what has to be done with no repair estimate available at this time.

Requests for Information

This financial report is designed to provide residents of both the Village of Akron and the Village of Fairgrove with a general overview of the Board of Operation's finances and to show accountability for the funding it receives. Questions concerning any of the information in this report should be addressed to: Robert Hill, Chairman, Michael Krause, Treasurer, Akron Fairgrove Wastewater, Akron, MI 48701.

BASIC FINANCIAL STATEMENTS

BOARD OF OPERATIONS - AKRON FAIRGROVE WASTEWATER SYSTEM

STATEMENT OF NET ASSETS MARCH 31, 2008

Current assets:

Cash in bank	\$ 20,661	
Accounts receivable	<u>5,850</u>	
Total current assets		\$ 26,511

Non-current assets:

Capital assets:

Building and lagoon improvements	77,930	
Equipment	7,127	
Accumulated depreciation	<u>(20,691)</u>	
Total capital assets, net of accumulated depreciation	<u>64,366</u>	
Total non-current assets		64,366
Total assets		<u>90,877</u>

Current liabilities:

Accounts payable	<u>377</u>	
Total current liabilities		<u>377</u>

Net assets:

Investment in capital assets	64,366	
Unrestricted	<u>26,134</u>	
Total net assets		\$ <u>90,500</u>

BOARD OF OPERATIONS - AKRON FAIRGROVE WASTEWATER SYSTEM

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS YEAR ENDED MARCH 31, 2008

OPERATING REVENUES:

Charges for services	\$ 23,400	
Total operating revenue		\$ 23,400

OPERATING EXPENSES:

Depreciation	3,748	
Fuel	496	
Insurance	1,207	
Lagoon analysis	2,575	
Miscellaneous	655	
Operating supplies	5,604	
Permits	400	
Professional fees	700	
Repairs	1,016	
Salaries and board fees	5,100	
Utilities	90	
Total operating expenses		<u>21,591</u>
Operating income		1,809

NON-OPERATING REVENUES:

Interest income	<u>649</u>	
Total non-operating revenues		<u>649</u>

Change in net assets	2,458
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NET ASSETS AT APRIL 1, 2007	88,043
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NET ASSETS AT MARCH 31, 2008	<u>\$ 90,500</u>
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BOARD OF OPERATIONS - AKRON FAIRGROVE WASTEWATER SYSTEM

**STATEMENT OF CASH FLOWS
YEAR ENDED MARCH 31, 2008**

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from villages for wastewater services	\$ 23,400
Cash payments to employees	(5,100)
Cash payments to suppliers for materials and services	<u>(12,734)</u>
Net cash provided by operating activities	\$ 5,566

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Acquisition of assets	<u>(26,575)</u>
Net cash (used) by capital and related financing activities	(26,575)

CASH FLOWS FROM INVESTING ACTIVITIES:

Interest income	<u>649</u>
Net cash provided by investing activities	649

NET INCREASE IN CASH (20,361)

Cash at April 1, 2007 41,022

Cash at March 31, 2008 \$ 20,661

RECONCILIATION OF OPERATING INCOME TO NET

CASH PROVIDED FROM OPERATING ACTIVITIES:

Operating income	\$ 1,809
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	3,748
Changes in current assets and current liabilities	
Increase in current liabilities:	
Accounts payable	<u>9</u>
Net cash flows from operating activities	<u>\$ 5,566</u>

BOARD OF OPERATIONS - AKRON FAIRGROVE WASTEWATER SYSTEM

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Board of Operations-Akron Fairgrove Wastewater System was formed March 11, 1980, as a result of a contract between the Village of Akron and the Village of Fairgrove regarding their joint ownership and operation of their wastewater system. The Board was established to supervise the operation of the system including maintenance of all facilities and equipment. In return, the Board bills the Villages on a quarterly basis for a flat rate for their share of expenses:

The Board of Operations is composed of two members from the Village of Akron and two members from the Village of Fairgrove.

The Board's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The accounting policies of the Board conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The more significant accounting policies established in GAAP and used by the Board are discussed below.

Principles Determining Scope of Reporting Entity:

In evaluating how to define the Board for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity is made by applying the criteria set forth in GAAP. The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Board is able to exercise oversight responsibilities. Based upon the application of these criteria, the Board has no oversight responsibility for any other governmental entity since no other entities are considered to be controlled by or dependent on the Board.

Measurement Focus, Basis of Accounting and Basis of Presentation

The Board of Operations is presented as an enterprise fund. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred or an economic asset is used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

BOARD OF OPERATIONS - AKRON FAIRGROVE WASTEWATER SYSTEM

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The financial activities of the Board of Operations-Akron Fairgrove Wastewater System are recorded in one fund categorized as an Enterprise Fund. Enterprise Funds are of the Proprietary Fund Type and are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Cash and Cash Equivalents:

Cash and cash equivalents of the Board of Operations-Akron Fairgrove Wastewater System include all deposits with financial institutions. Deposits with financial institutions are fully insured by the FDIC.

Capital Assets:

Capital assets are defined by the Board of Operations as assets with an initial, individual cost of more than \$500. Capital assets of the Board of Operations are reported at cost or the fair market value at the time of contribution to the Board of Operations. Capital assets in service are depreciated using the straight-line method over the following useful lives:

	Years
Test Wells	20
Lagoon Improvements	15 - 20
Equipment	7

BOARD OF OPERATIONS - AKRON FAIRGROVE WASTEWATER SYSTEM

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2008

NOTE 2 – CASH DEPOSITS:

Deposits are carried at cost. Deposits of the Board of Operations are made in banks in the name of the Board of Operations Treasurer. Michigan Compiled Laws, Section 129.91, as amended by Public Act 196 of 1997, authorizes the Board Treasurer to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities, and direct obligations of the United States, or any agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard rating agencies within the two highest classifications, which matures not more than 270 days after the date of purchase. The Board's deposits are in accordance with statutory authority.

At March 31, 2008, the carrying amount of the Board's deposits was \$20,661 and the bank balance was \$20,786. Of the bank balance, \$20,786 was covered by federal depository insurance.

NOTE 3 – CHANGES IN CAPITAL ASSETS:

	BALANCE MARCH 31, <u>2007</u>	<u>ADDITIONS</u>	<u>DISPOSALS</u>	BALANCE MARCH 31, <u>2008</u>
CAPITAL ASSETS:				
Building and lagoon improvements	\$51,355	\$26,575		\$77,930
Equipment	<u>7,127</u>			<u>7,127</u>
TOTAL CAPITAL ASSETS	58,482	26,575		85,057
Less: Accumulated				
Depreciation	<u>(16,943)</u>	<u>(3,748)</u>		<u>(20,691)</u>
NET CAPITAL ASSETS	<u>\$41,539</u>	<u>\$22,827</u>		<u>\$64,366</u>

NOTE 4 – RELATED PARTY TRANSACTIONS:

The Board operates a raw sewage treatment facility (lagoon) for the Village of Fairgrove and the Village of Akron. Although the Board of Operations is not considered a component unit of the two villages, it is considered a jointly governed organization. The Board of Operations generates revenue by quarterly fixed user charges based on an average of the gallons pumped by the two Villages. The Village of Fairgrove user fees amounted to \$14,000 and the Village of Akron user fees amounted to \$9,400 for the fiscal year ended March 31, 2008. The related accounts receivable for the Village of Fairgrove is \$3,500 and for the Village of Akron is \$2,350 at March 31, 2008.

BOARD OF OPERATIONS - AKRON FAIRGROVE WASTEWATER SYSTEM

**NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2008**

NOTE 5 - RISK MANAGEMENT:

The Board of Operations – Akron Fairgrove Wastewater System purchased commercial insurance coverage for all general liability coverage. Significant losses are covered by commercial insurance for all major programs. For the year ended March 31, 2008, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.



Nietzke & Faupel, PC

Partners: Donald C. Faupel, CPA Jeffrey P. Bushey, CPA
Consultant: Allan W. Nietzke, CPA
Principals: Eugene R. Gascho, COO
Brian V. Hazard, CPA JoAnn E. Lakie, CPA

Members of: Michigan Association of Certified Public Accountants • American Institute of Certified Public Accountants

CPA's On Your Team

Communication of Significant Deficiencies and Material Weaknesses

June 26, 2008

To the Board of Operations and Mike Krause
of the Akron Fairgrove Wastewater System,

In planning and performing our audit of the financial statements of the business-type activities of Akron Fairgrove Wastewater System as of and for the year ended March 31, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Akron Fairgrove Wastewater System's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

Due to the limited number of people sitting on the board and employed by Akron Fairgrove Wastewater, many critical duties are combined and given to the available employees. Presently, a single individual prepares and signs checks, reconciles bank accounts, performs all payroll duties as well as maintains the general ledger. Also, the same person responsible for cash disbursements is responsible for handling and depositing of cash receipts and posts to the cash receipts and maintains the accounts receivable subsidiary. Employees who have both custodial and record keeping responsibilities for the same asset creates a significant internal control weakness. While we understand that a complete segregation of duties is impractical for a small board with limited personnel, we believe that some relatively minor changes could be made which would significantly improve controls. To the extent possible, duties should be segregated to serve as a check and balance on the employee's integrity and to maintain the best control system as possible. We suggest that the duties of cash disbursements and cash receipts are separated from the duties of the bank account reconciliation.

Circular 230 Disclosure: To the extent the above contains an opinion on one or more federal tax issues, such opinion was not written to be used and cannot be used for the purpose of avoiding penalties.

Akron Fairgrove Wastewater System
June 26, 2008

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

The AICPA Auditing Standards Board issued Statements on Audit Standards (SAS) 112 which establishes standards and provides guidance on communicating matters related to an entity's internal control over financial reporting and is effective for periods ending after December 15, 2006. According to SAS 112, it is considered to be a control deficiency if a client we are auditing has ineffective controls over the preparation of their financial statements such that client controls are absent or controls are not effective in preventing or detecting material misstatements in the preparation of the financial statements, including the related footnotes.

The personnel of Akron Fairgrove Wastewater System have the capability to perform monthly internal accounting functions and reports as required by management. The personnel of Akron Fairgrove Wastewater System do not have the expertise to prepare the annual financial statements and related footnotes in accordance with the method of accounting utilized in the external audit report. We believe this meets the definition of a material weakness under Statement on Auditing Standards 112.

This communication is intended solely for the information and use of management, the Board of Operations of Akron Fairgrove Wastewater System, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Nietzke & Faupel P.C.

Nietzke & Faupel, PC
Sebewaing, MI 48759